A FINANCIAL PROFILE OF QUÉBEC

1991-1992

QUÉBEC

TRENDS

QUÉBEC GOVERNMENT FINANCIAL POLICY

THE ECONOMY

TAXATION

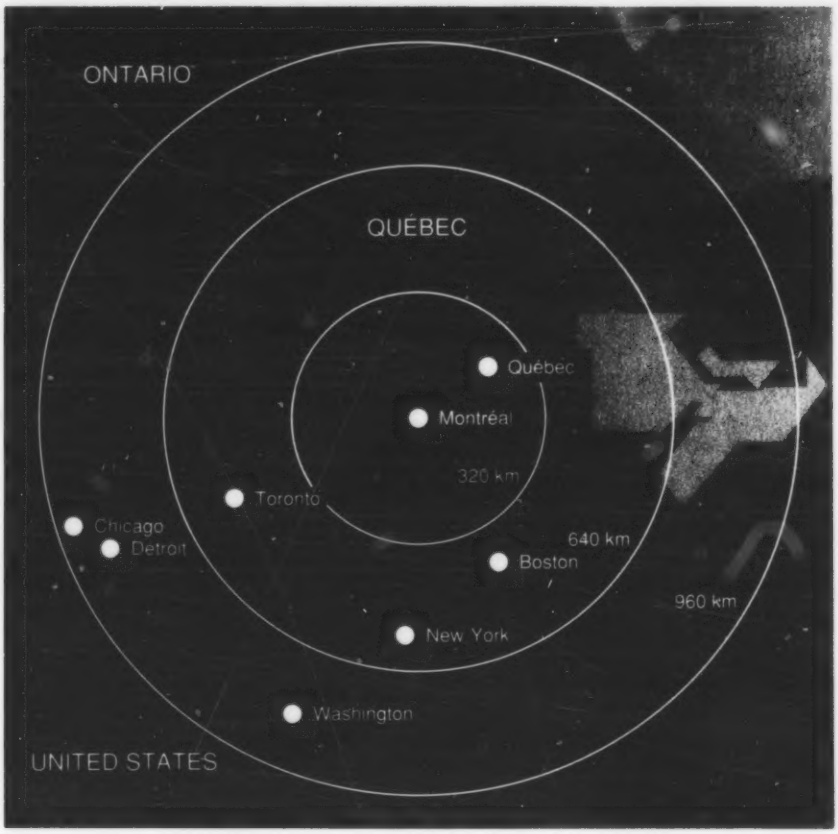
PUBLIC FINANCES

FINANCING AND DEBT

CREDIT RATINGS

Gouvernement du Québec
Ministère
des Finances

Québec



Québec lies at the crossroads of the Canadian and American markets; it is also a gateway to Europe, especially through the Saint Lawrence River.

The largest Canadian province in area (1 667 926 km²), Québec is the second largest province in terms of population (6.7 million).

French- and English-speaking Quebecers account for 82.8 percent and 12.3 percent, respectively, of the province's population; each of the two main language groups has its own public schools, universities and hospitals. Québec society also includes other cultural communities. The majority of Quebecers live in cities, primarily along the Saint Lawrence.

There are two main urban centres.

Montréal, a cosmopolitan city with a population of 3 million, has all the features of a major North American metropolis. It is noted in particular for its aeronautical, telecommunications, electronics, consulting engineering, financial and cultural industries sectors. Moreover, Montréal is an international financial centre which enjoys special tax status. The city has several universities and is an important commercial centre in eastern North America.

Québec City, the capital, is the only urban UNESCO World Heritage Site in North America. Greater Québec City has 600 000 residents; it is recognized for the quality of life its residents enjoy and its tourist attractions. It is a service centre, the seat of the provincial government, the headquarters of insurance companies, and the home of Université Laval. It has a major technology park, a deep-water port, and an industrial base.

Since the 1960s, among the industrialized nations, Québec has made the most striking progress in upgrading its education, social, health and other services. It has also displayed considerable openness to the outside world in the economic and cultural spheres.

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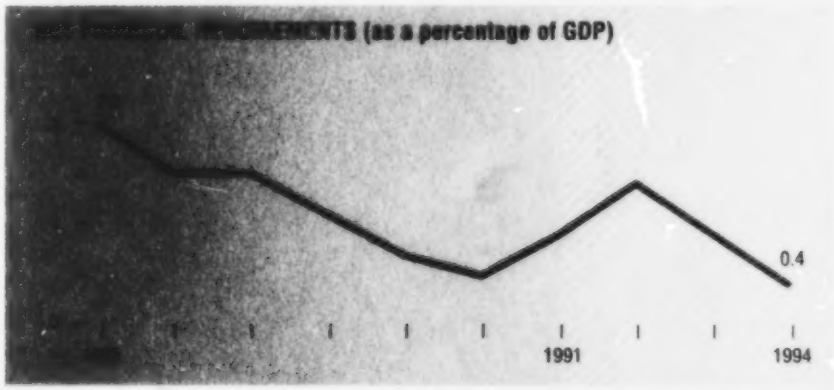
Trends

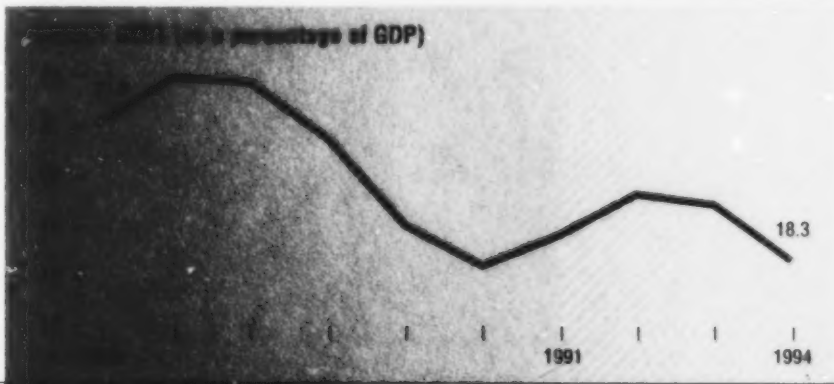
Solid economic growth sustained by vigorous investment.

Despite the economic downturn in North America which also affected Québec in 1990, the goal of maintaining sound public finances is being resolutely pursued.

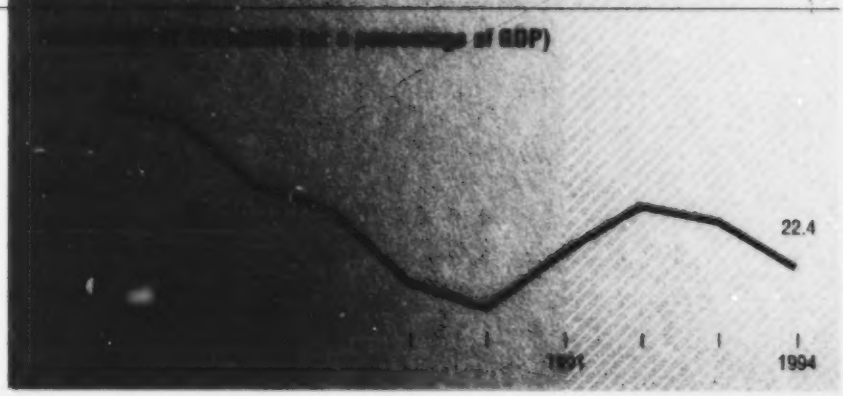
Lower financial requirements.



Reduced debt burden.



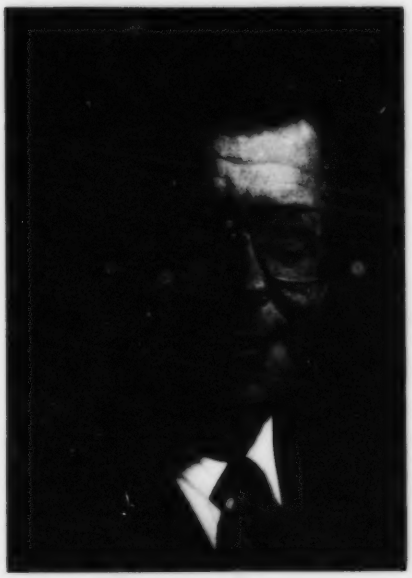
Limited government spending in relation to GDP.



* Fiscal years ending March 31.

Forecast.

Québec government financial policy



In light of the increasing globalization of markets and freer trade with the United States, Québec will be able to meet new challenges arising from these developments through a diversified, highly industrialized economy, and dynamic, qualified manpower. For several years, government policies have focused on promoting long-term economic growth and enhancing the competitiveness of the tax system. At the same time, stringent control over spending has enabled the government to markedly improve its financial position.

The impact of these policies was felt during the economic slowdown affecting North America in 1990; they enabled Québec to perform satisfactorily in relation to its main North American trading partners.

A diversified economy

In 1990, the primary sector accounted for 3.1 percent of Québec's output, compared with 26.8 percent for the secondary sector, and 70.1 percent for the service sector. Between 1983 and 1989, Québec enjoyed uninterrupted economic growth; output rose on average by 3.8 percent a year. However, the Québec economy, like other North American economies, slowed down in 1990. During the 1980s, investment was especially vigorous: the ratio of investment to GDP increased from 15.1 percent in 1983 to an estimated 19.1 percent in 1991. This performance reflects government policy aimed at encouraging private-sector initiatives. For example, by developing its enormous hydroelectric potential ($4.3 billion invested in 1991), Québec has attracted substantial manufacturing investment. In the aluminum sector, in particular, direct investment in 1991 should total $1.5 billion, four times the 1986 figure.

A competitive tax system

Long-term economic growth has also been fostered by an increasingly competitive tax system. As it pertains to businesses, the Québec tax system is now one of the most advantageous in North America for dynamic firms which invest to expand production capacity, upgrade technology and train personnel.

In 1990, the Québec government reformed the consumption tax system by bringing it into line with the federal goods and services tax (GST). This noteworthy initiative is economically sound. In particular, it will enable companies operating in Québec to enjoy a significant competitive edge because of the removal of the tax on purchases of capital assets.

Healthier public finances

Through stringent control over spending, the Québec government has considerably enhanced its financial position.

Having substantially reduced the budget deficit in recent years and appreciably improved other financial indicators as a result, the government has been in a position to absorb the impact of the economic slowdown by temporarily increasing the deficit.

Once the economy is back on its feet, the government intends to resolutely pursue its objective of enhancing the main financial indicators.

Dynamic management of financing and debt

In terms of financing and debt management, the government is seeking to minimize costs and risks related to debt service. To this end, it has endeavoured to achieve the utmost flexibility and constantly keep abreast of rapidly changing markets, techniques and financial instruments.

Consequently, the government seeks financing on a variety of markets, to reach a wide array of investors, uses new, cost-effective financial instruments, deals with leading financial intermediaries with acknowledged ability to distribute and who are involved in the secondary market, and adopts measures which encourage the development of an increasingly liquid market in Québec securities.

In addition to its financing operations, the Québec government has emphasized more active management of its debt portfolio. By making more extensive use of options to reimburse prior to maturity, and currency swap and interest rate contracts covering a broad range of currencies (US dollars, yen, deutschmarks, Swiss francs, sterling, French francs and so on), the government has lowered the cost of debt service while modifying the structure of its debt, with a view to curtailing risk. Québec intends to vigorously pursue this dynamic debt management policy.

Investor confidence

The Québec government is pleased that domestic and foreign investors have shown confidence in it for so many years. Such confidence has displayed itself in many ways. In particular, Québec has demonstrated its ability to secure increasingly large amounts on various markets, over long periods, under highly competitive conditions.

Québec is especially proud of the reception it has received on foreign markets for over 20 years. As a result, the province has regularly benefited from conditions which compare favourably with those accorded borrowers enjoying the highest credit rating.

We believe that this confidence results from an accurate assessment by investors of the quality of management of Québec's economy and public finances, and the province's considerable development potential.

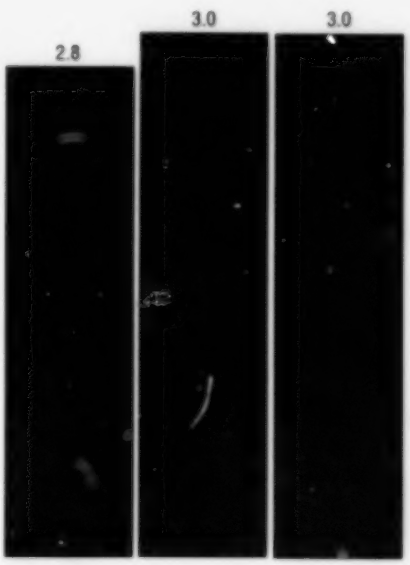
Gérard D. Levesque,
Minister of Finance

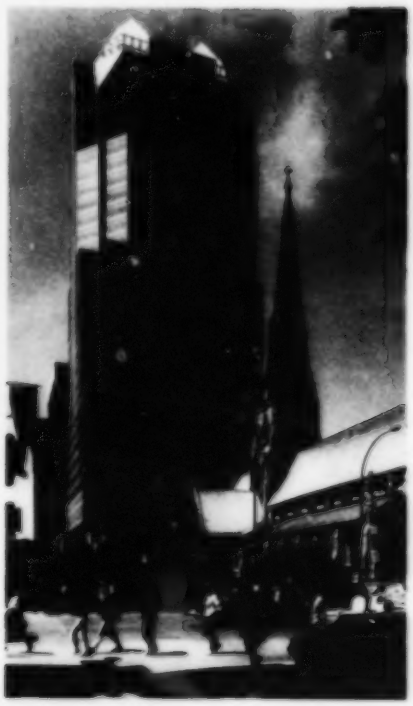
The economy

Since 1985, Québec has enjoyed enviable economic growth, similar to that recorded elsewhere in North America.

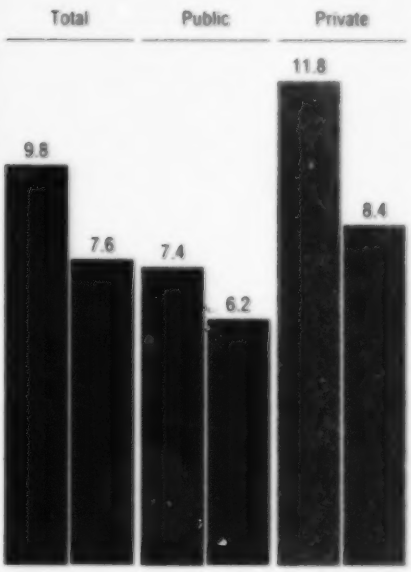
Québec's economic growth has resulted, in particular, from a rapid increase in non-residential investment, reflected in the establishment of new manufacturing industries and the modernization and expansion of existing businesses.

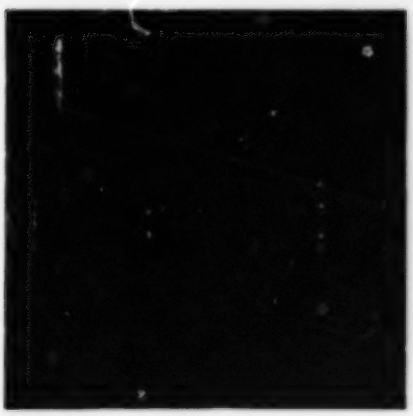
ECONOMIC GROWTH IN QUÉBEC AND NORTH AMERICA
(annual average since 1985)
(as a percentage)

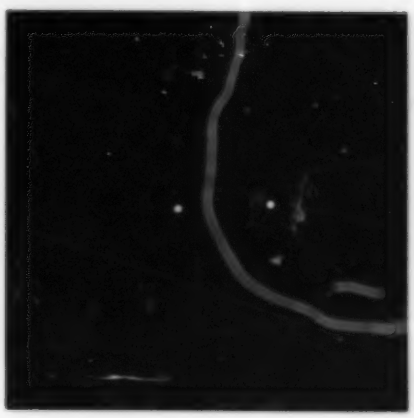


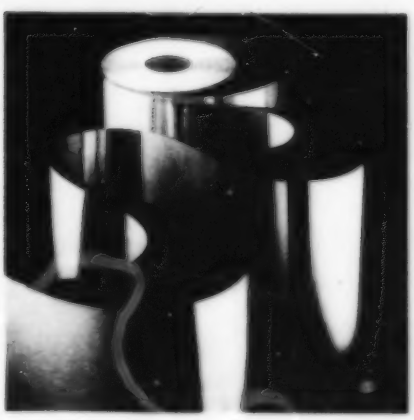


NON-RESIDENTIAL INVESTMENT IN QUÉBEC AND CANADA
(average annual growth rate since 1985)
(as a percentage)





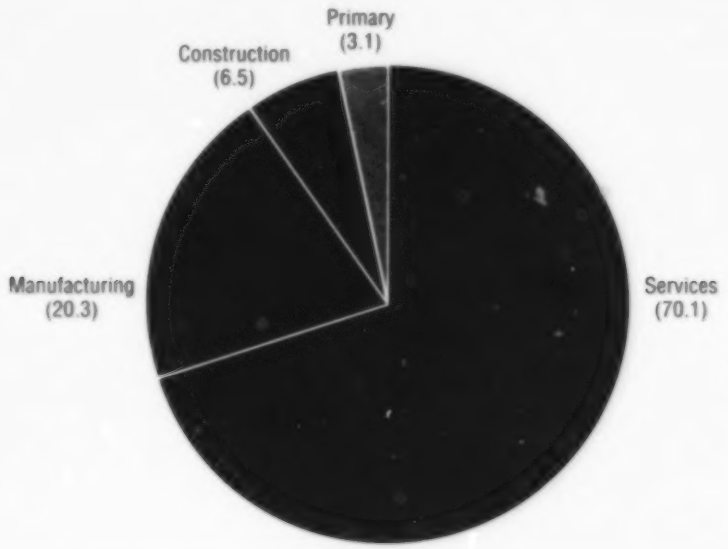




The economy

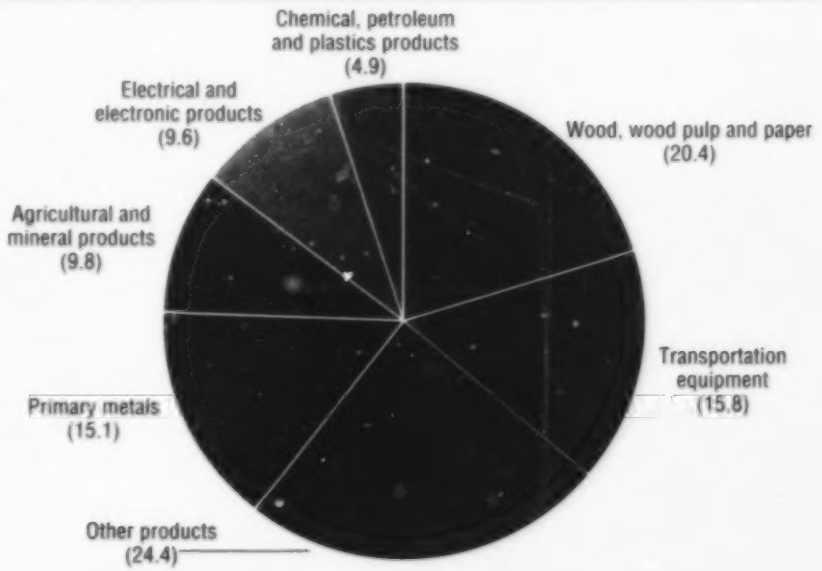
Québec has a highly diversified, modern, post-industrial economy. In 1990, the primary sector accounted for 3.1 percent of output, the secondary sector for 26.8 percent, and the service sector for 70.1 percent.

RELATIVE IMPORTANCE OF THE MAIN ECONOMIC SECTORS, QUÉBEC 1990 (as a percentage)



Québec has a very open economy; international goods exports account for over 15.4 percent of the province's GDP. Exporting is becoming increasingly important in the aeronautical, aluminum, forest products, telecommunications and electronics sectors.

RELATIVE IMPORTANCE OF THE MAIN CATEGORIES OF EXPORTS, QUÉBEC 1990 (as a percentage)



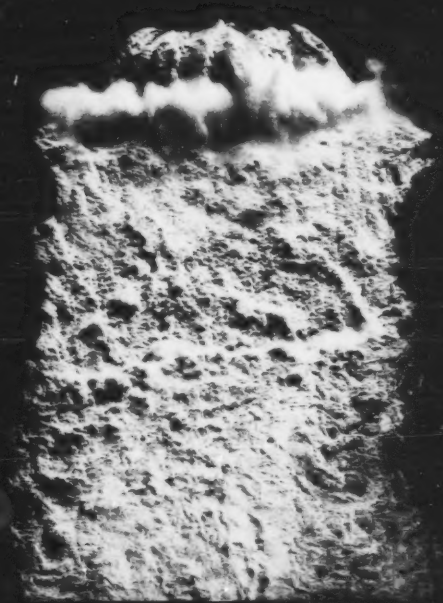
The economy

ECONOMIC POLICIES GEARED TO GROWTH

In North America, the globalization of markets has led to the implementation of the Canada-US Free Trade Agreement. Negotiations are now under way to reach an agreement which would include Mexico.

Since 1985, the Québec government has sought to help businesses successfully meet the challenge of international competition. It has initiated a number of measures designed to bolster the four main factors contributing to growth in a modern economy:

- **Qualified manpower**: Fiscal measures have been adopted to encourage training, retraining and skills development;
- **Innovation and the dissemination of technology**: The government has introduced a tax incentive to foster R & D and set up the Technology Development Fund;
- **The availability of sufficient venture capital**: Measures aimed at making it easier to raise capital have been adopted or enhanced, especially those pertaining to small and medium-sized businesses (SMBs);
- **Investment**: To attract foreign businesses and enable Québec firms to carry out major projects, the Industrial Development Fund has been established, the development of the province's hydroelectric potential continues to create spinoff, and a consumption tax reform has been carried out to allow for the removal of taxes on purchases of capital assets.



Taxation

Since 1985, the government has significantly reduced the tax burden in Québec. A major reform of consumption taxes, initiated in 1991 with respect to retail goods, will be completed on January 1, 1992.

Individuals

Between 1985 and 1991, the maximum marginal tax rate dropped from 32.0 percent to 24.0 percent. The differential between the Québec and Ontario maximum marginal tax rates fell from 10.1 percent to 2.0 percent.

Corporations

Québec taxes profits lightly and encourages the most profitable, dynamic firms.

Low taxes on corporate profits and tax incentives related to investment, research and development and worker training make the Québec tax system highly competitive compared with those of neighbouring Canadian and American jurisdictions.

The Québec tax system clearly favours companies which invest in expansion, upgrade technology and train workers.

Consumption taxes

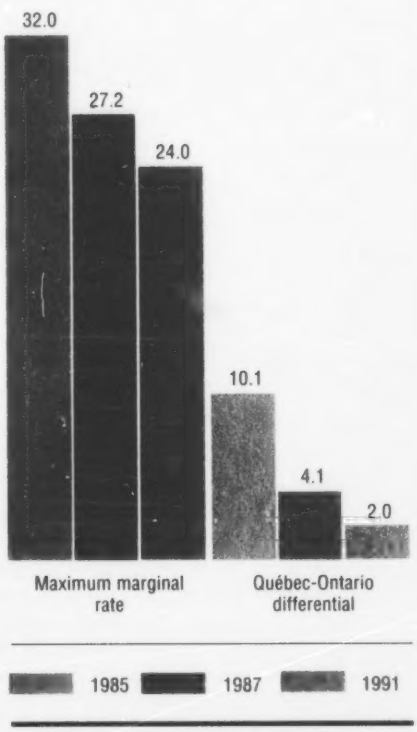
The Québec government has instigated a reform of consumption taxes, designed to harmonize the provincial sales tax (PST) and the federal goods and services tax (GST). In January 1991, the PST base was broadened to include most goods subject to the GST. The reform will be completed in 1992, when the PST will be extended to services so that, with few exceptions, all goods and services subject to the GST will also be subject to the PST.

Businesses which purchase goods and services in conjunction with their operations will receive a refund of the PST. Moreover, low-income families are eligible for a refundable tax credit.

The Québec government will administer the GST within its territory on behalf of the federal government.

The reform simplifies the tax system and makes it possible to improve the system to better reflect the imperatives of growing competition on international markets.

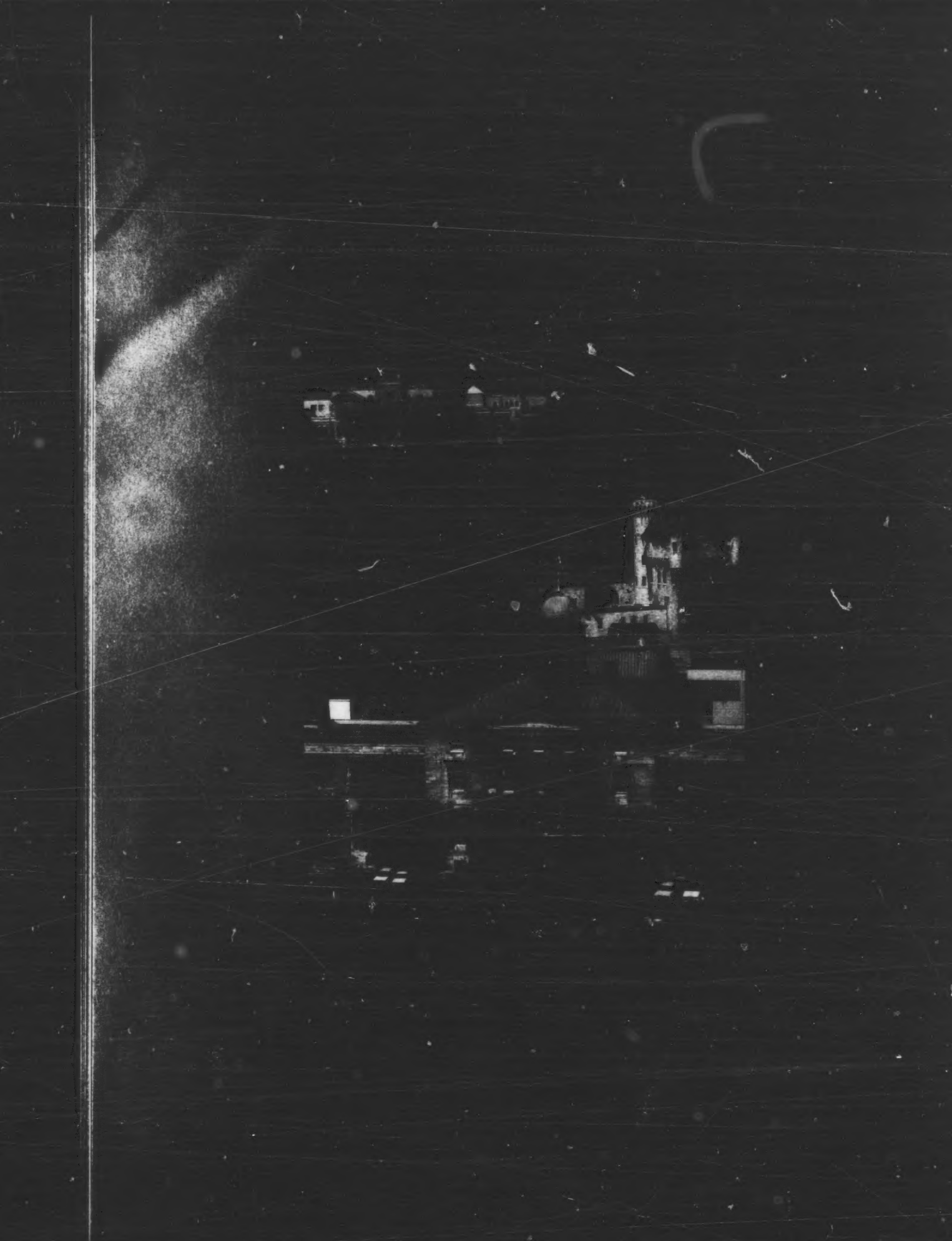
MAXIMUM MARGINAL TAX RATES IN QUÉBEC AND DIFFERENTIAL WITH ONTARIO (as a percentage of taxable personal income)



EFFECTIVE CORPORATE TAX RATES (as a percentage)

	Québec	Ontario
Taxes on profits		
• Small businesses	3.75	10.0
• Large businesses	6.90	14.5
Tax on capital	0.56	0.3[1]
Employer contributions to the Health Services Fund	3.75	0.98 to 1.95

1. Taxable capital over $2 million.

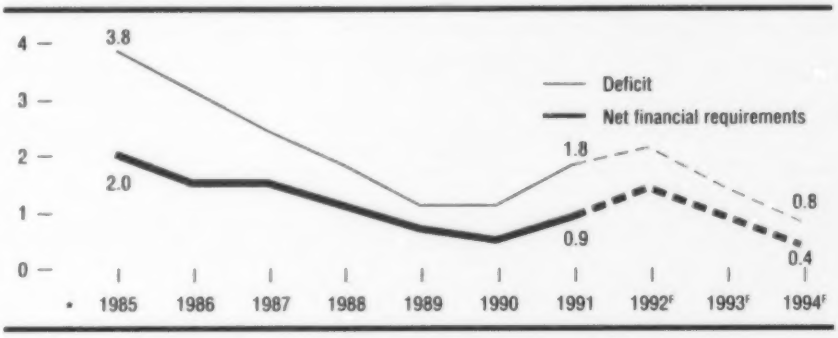


Public finances

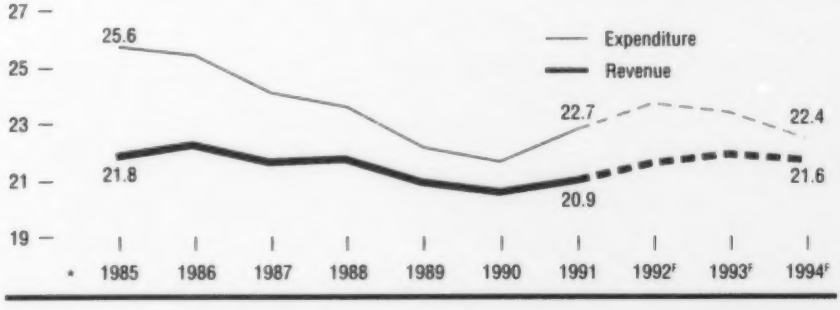
Since 1985, one of the Québec government's main objectives has been to reduce the deficit and balance the current account. However, the government has decided to temporarily increase the deficit in 1991 and 1992 to cushion the impact of the economic slowdown.

The deficit should drop by roughly $1 billion in each of the next two years, which will make it possible to balance the current account in 1994. Over the next three years, the proportion of budgetary revenue allocated to paying interest on direct debt will continue to decline.

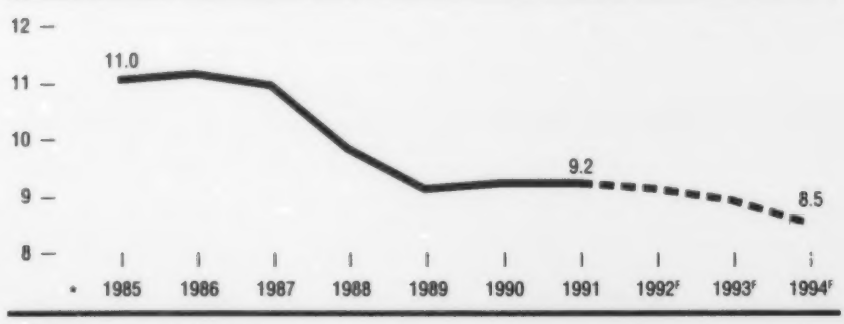
BUDGETARY DEFICIT AND NET FINANCIAL REQUIREMENTS
(as a percentage of GDP)



BUDGETARY REVENUE AND EXPENDITURE
(as a percentage of GDP)



DIRECT DEBT SERVICE AS A PROPORTION OF REVENUE
(as a percentage)



* Fiscal years ending March 31.
F: Forecast.

Financing and debt

The Québec government seeks to minimize costs and risks in its financing and debt management operations. To this end, it endeavours to:

- ☐ make the best use of Canadian dollar funding sources;
- ☐ diversify sources of financing by dealing with a wide array of markets;
- ☐ deal on each market with financial intermediaries with recognized distribution skills and a significant, sustained presence on the secondary market;
- ☐ constantly encourage greater liquidity in Québec securities;
- ☐ take out medium- and long-term borrowings and ensure that the debt matures over time in a balanced manner;
- ☐ actively manage, using numerous instruments for this purpose, risks inherent in borrowings denominated in foreign currencies and those with floating interest rates.

Expertise acquired in recent years and the development of highly sophisticated analytical tools are enabling the government to use a broader range of financial instruments and derivative products, in order to benefit fully from market opportunities and the creativity of the leading financial agents.

Financing and debt

The government

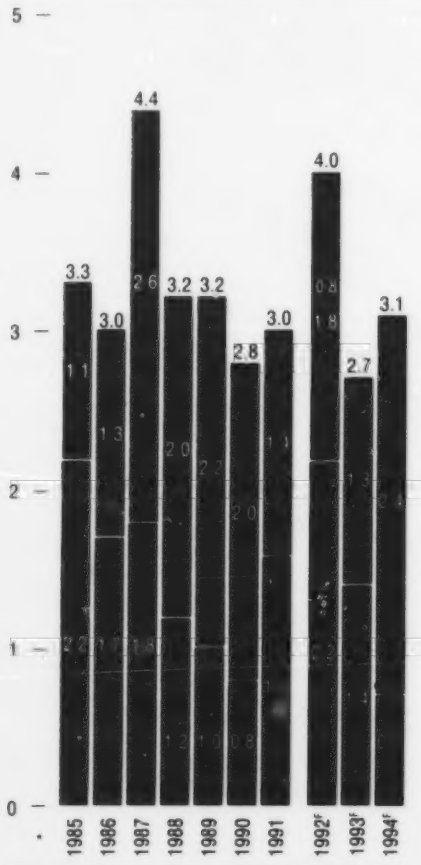
Volume of borrowings

Over the next three years, the government is expected to borrow, on average, $3 250 million a year, the same average figure as over the preceding seven years.

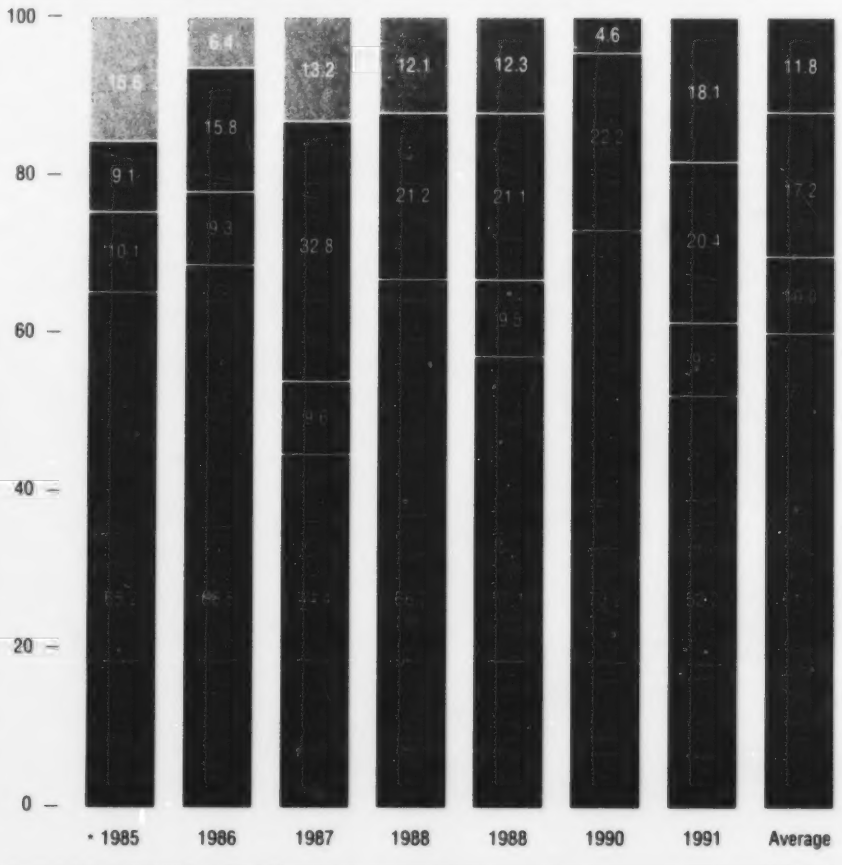
Source of funds

On average, over the past seven years, 71.0 percent of borrowings have been effected on North American markets and the remainder on European and Asian markets.

GOVERNMENT BORROWINGS
(in billions of dollars)



GOVERNMENT BORROWINGS BY SOURCE OF FUNDS
(as a percentage)



F: Forecast.

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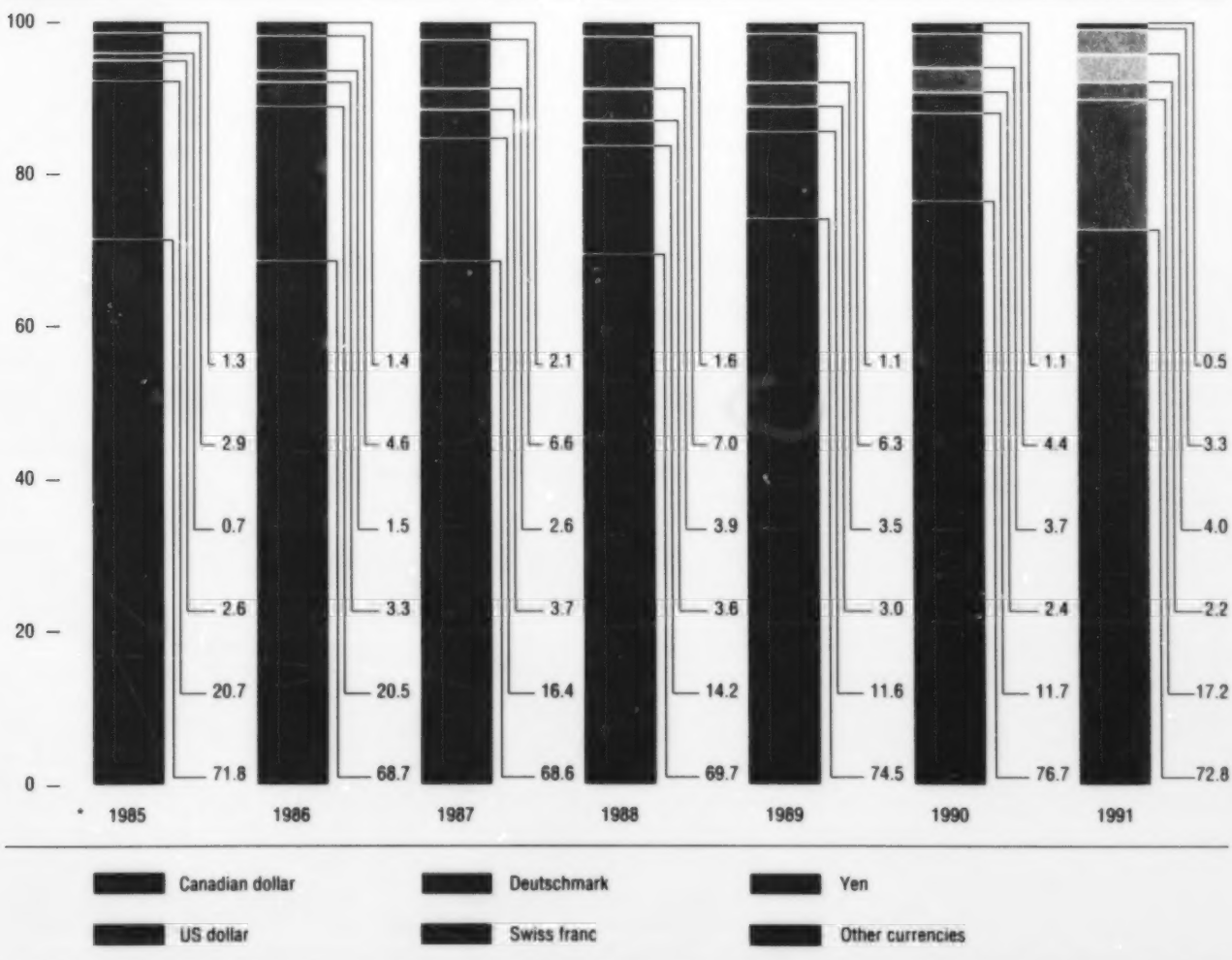
Financing and debt

A breakdown of the debt by currency

Borrowings effected in recent years combined with currency swaps on existing debt have made it possible to reduce to 10 percent the proportion of the debt denominated in currencies other than Canadian and US dollars. In 1990-1991, because of the interest rate differential between Canada and the United States, the proportion of the debt in US dollars was increased, and the proportion in Canadian dollars was decreased.

BREAKDOWN OF THE DEBT BY CURRENCY
(as a percentage)



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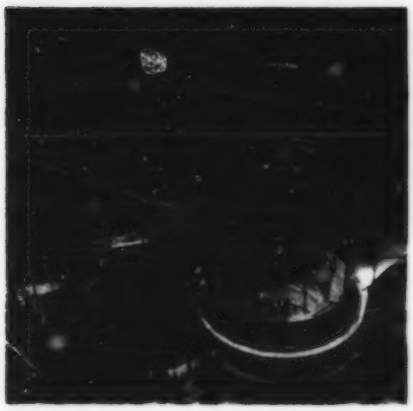
Financing and debt



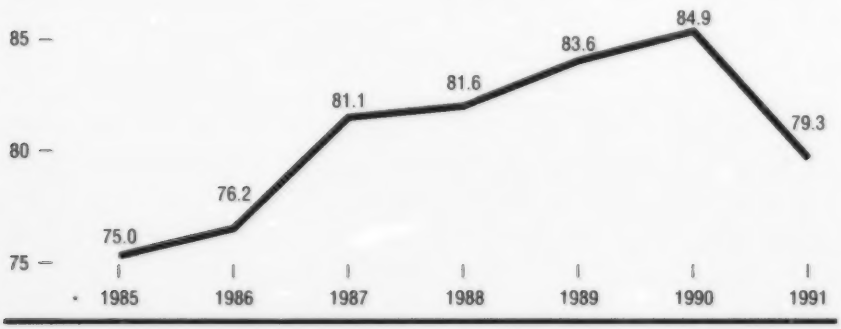
The government

Structure of the debt

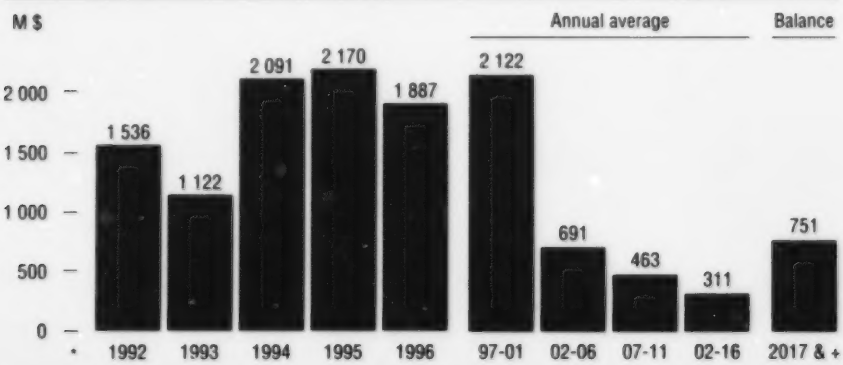
As a result of financing and debt management operations between 1985 and 1990, the proportion of debt at fixed interest rates rose from 76.2 percent to 84.9 percent. However, in 1990-1991, the proportion was reduced to 79.3 percent with a view to lowering medium-term debt service costs by subsequently financing the debt at lower fixed interest rates.

Maturities continue to be spread over time with a view to maintaining balance.

PERCENTAGE OF THE DEBT AT FIXED INTEREST RATES



MATURITIES OF THE DEBT (in millions of dollars)



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Financing and debt

The public sector

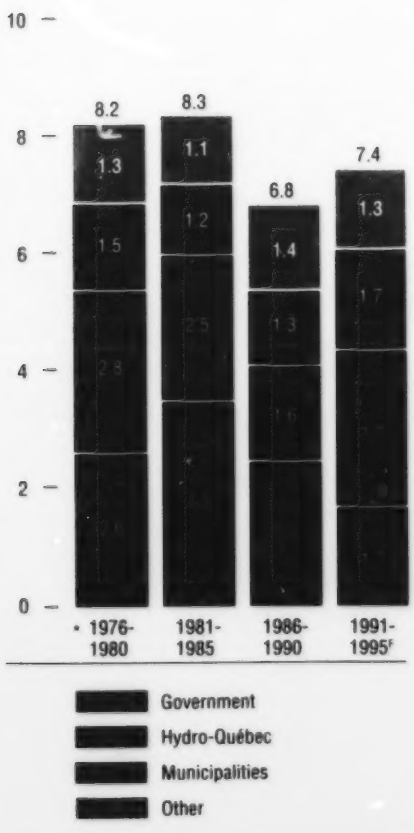
Public sector borrowings

After declining significantly during the 1980s, public sector borrowings as a proportion of GDP should increase in the coming years, mainly because of anticipated heavy investment by Hydro-Québec. However, overall borrowings should be well under the relative levels they reached between 1976 and 1985.

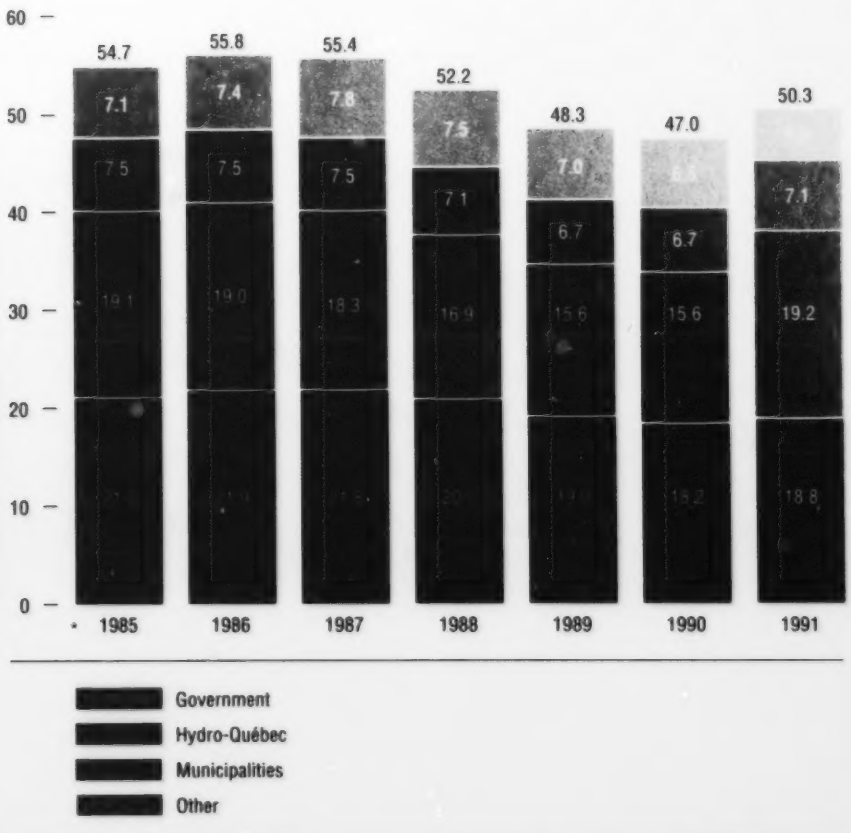
Public sector debt

Reduced borrowing in recent years, especially by the government, has led to a decrease in the relative importance of overall public sector debt in the Québec economy. The increase in 1990-1991 is due by and large to accelerated productive investments by Hydro-Québec.

PUBLIC SECTOR BORROWINGS
(as a percentage of GDP)



PUBLIC SECTOR DEBT
(as a percentage of GDP)



F: Forecast.

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Credit ratings

Québec securities are rated

AA– *by* STANDARD & POOR'S

Aa3 *by* MOODY'S

The AA (Standard & Poor's) or Aa (Moody's) categories indicate a high ability to pay interest and principal on the debt. These issues differ from the highest rated securities only by a small margin.

This sound appraisal of Québec's creditworthiness reflects an acknowledgement by the rating agencies that Québec's economy is well developed and diversified, and that output capacity is being bolstered to heighten competitiveness. It also confirms that the finances of the government and public institutions are sound, especially in terms of the decline in the relative importance of public debt.

For further information, please contact:

Direction des marchés de capitaux
Ministère des Finances
12, rue Saint-Louis
Québec (Québec), Canada
G1R 5L3
Telephone: (418) 691-2218
Telecopier: (418) 643-4700

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Alcan, page 9 (bottom right), aluminum.
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Bombardier, page 8, regional jet.
Cambior, page 9 (bottom centre), mines.
City of Montréal, communications module, page 3 (top), downtown Montréal.
Eugen Kedl, page 3 (bottom), Québec City; page 6, Parliament Building, Québec City; page 7, Gérard D. Levesque; page 9 (top), Coopérants building, Montréal; page 17, ministère des Finances building, Québec City; page 24, Percé Rock.
Hydro-Québec, page 20, hydroelectric turbines; page 23 (right), LG2 dam spillway.
McGill University, page 14, McGill Campus, Montréal.
Ministère de l'Énergie et des Ressources, page 2, Québec viewed from a satellite; page 9 (lower left), forests; page 12, LG3 dam spillway; page 23 (left), ancestral home.
Montreal Stock Exchange, page 17 (bottom), MSE dealing floor.
Orchestre symphonique de Montréal, page 22, concert at Église Notre-Dame.
Pratt & Whitney, page 11, Longueuil aircraft engine assembly plant.

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